

Investing For Your Future In Uncertain Times

Last month, several New Jersey newspapers interviewed me about the effects of the September 11 acts of terrorism upon investments and 401(k) plans. I noted that most people were “sitting tight” and investing for the long term as financial professionals advise. My most frequently-asked questions at that time were from senior citizens concerned about the reduced yield on fixed-income investments, such as certificates of deposit, and looking for higher returns.

Things have changed. In the last two weeks, some people I have talked to are voicing a question that was unthinkable before September 11: what if there is no “long term” to invest for? The anthrax incidents and threat of future terrorist acts have affected our perception of control over our lives.

A few people I’ve talked to are even questioning the wisdom of saving for the future. In order to save in a 401(k) plan or elsewhere, one has to believe that it is a better use for their money than spending it today. One has to believe they have a future.

Did people feel this same level of anxiety during World War II when there was great uncertainty about who would drop the first atomic bomb? If they did, it was not reflected in our national savings rates, which were the highest ever during the early 1940s. Of course, there were also product shortages and war bonds back then and no such thing as Visa and MasterCard.

One class participant told me recently that he wouldn’t mind saving if he knew that the money would benefit someone in his family if he died. He then wondered aloud if everyone he loved could contract anthrax simultaneously and perish. In that case, he reasoned, he might be better off just spending his 401(k) contributions now while he had the chance.

As a recent breast cancer survivor, I can personally relate to these thoughts. They’re how some people think when they’re diagnosed with cancer or another life-threatening disease. All illusions of

immortality (or at least living to a ripe old age) are shattered. They wonder if they'll live long enough to retire. It's a very unsettling feeling. It can also lead to actions that are counter-productive for you and others. It is important, both emotionally and financially, to enjoy every day, do fun things with family and friends, and believe you have a future and plan for it.

What does the future hold? Of course, nobody knows. The past (e.g., Pearl Harbor and World War II) is not particularly instructive now because we are in uncharted territory with the anthrax scare. What we do know is that people who control what they can about a bad situation often have an easier time coping than those who don't. Below are five prudent precautions for these uncertain times:

- ◆ Maintain an emergency cash reserve of 3 to 6 months expenses. Keep this money in more than one place, such as both a bank and a money market mutual fund. Also keep some small denomination bills on hand (similar to preparations last year for Y2K).
- ◆ Back up all of your computer files, especially personal finance records, and keep your virus software updated.
- ◆ Keep a reasonable amount of canned foods and bottled water at home in case food supplies are disrupted (this is prudent in case of a winter storm anyway).
- ◆ Prepare a will and review beneficiary designations on IRAs and other retirement accounts. Name a contingent executor and beneficiaries for estate planning flexibility. Also, get your financial records in order, prepare a living will, and get a life insurance needs analysis if you think you don't have sufficient coverage to protect your dependents.
- ◆ Believe that you have a bright future and act and invest accordingly. To do otherwise jeopardizes your financial security and that of your family. Next year, there will be increased contribution limits and catch-up provisions (for persons age 50 and over) for both IRAs and tax-deferred employer retirement plans. Make the most of them.

#